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QEP Resources, Inc. (QEP)

Q3 2013 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the QEP Resources Third Quarter Earnings Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Mr. Greg Bensen, Director of Investor Relations for QEP Resources. Thank you, Mr. Bensen. You may begin.

Greg Bensen
Director-Investor Relations, QEP Resources, Inc.

Thank you, Manny, and good morning, everyone. Thank you for joining us for the QEP Resources Third Quarter 2013 Results Conference Call. With me today are Chuck Stanley, Chairman, President and Chief Executive Officer; Richard Doleshek, Executive Vice President and Chief Financial Officer; Jim Torgerson, Executive Vice President and Head of our E&P Business; Perry Richards, Senior Vice President and Head of our Midstream Business and joining us for his final earnings call before his retirement, Executive Vice President Jay Neese.

If you have not already done so, please go to our website, www.qepres.com, to obtain copies of our earnings release, which contains tables with our financial results and the slide presentation with maps and other supporting materials.

In today's conference call, we will use a non-GAAP measure, adjusted EBITDA, which is referred to as adjusted EBITDA in our earnings release and our SEC filings and is reconciled to net income in the earnings release with the SEC filings.

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In addition, we'll be making numerous forward-looking statements. We remind everyone that our actual results could differ materially from our forward-looking statements for a variety of reasons, many of which are beyond our control. And we refer everyone to our more robust forward-looking statements disclaimer and discussion of the risks facing our business in our earnings release and SEC filings.

With that, I'd like to turn the call over to Richard Doleshek.

Richard J. Doleshek

Chief Financial Officer, Treasurer & EVP, QEP Resources, Inc.

Thank you, Greg, and good morning, everyone. In terms of reporting results, we issued a financial and operating results news release yesterday, in which we reported third quarter 2013 operating and financial results. We updated operating activities in our core areas, and we updated our guidance for 2013. Chuck will provide more color on our operating activities and updated guidance for 2013 in his prepared remarks.

We continued to gain operational momentum in the third quarter and we accomplished an important corporate objective with the successful IPO of our Midstream [indiscernible] (2:19) limited partnership, QEP Midstream Partners LP. With regard to the MLP, let me say how proud I am of the accomplishments in the IPO. This was one of the fastest transactions to market in terms of the time between when the original S1 was filed and we priced the offering, just 91 days.

The offering was extremely well received. It was oversubscribed multiple times, had 70% institutional ownership, and was anchored by some of the most well-regarded institutional investors in the space. The IPO priced at the high end of the range, $21 per unit, which resulted in the valuation that reflected a 14 times multiple of forecasted EBITDA and a yield to investors of 4.76%, based on the minimum quarterly distribution.

Our only disappointment was the reaction or lack thereof of QEP's stock price to the transaction. MLP does have an impact on the data we report in our financial statements. We continue to consolidate the results of the MLP's operations: throughput, revenue, expense, capital, et cetera, but we deduct the 42.2% from the financial results of the portion of MLP that we don't own. In the second line items they're labeled non-controlling interest. We can discuss that more in Q&A if you want.

Turning now to our financial results. We generated $395.1 million of [ph] EBITDA (3:38) in the third quarter, which is a record for the company. If you include the public share of the MLP's EBITDA, it excludes the nonrecurring charge in the quarter, we would've reported EBITDA of about $405 million.

In comparing the third quarter of 2013 to the second quarter of the year, our results were driven by continued strong financial performance at QEP Energy, our E&P business, and slightly weaker performance at QEP Field Services, our gathering and processing business.

QEP Energy reported equivalent production of 78 Bcfe, essentially flat with the second quarter, but net equivalent price realizations that were 3.7% higher than the second quarter, driven by a larger crude oil contribution to the revenue stream.

From an EBITDA standpoint the $395.1 million generated in the third quarter was $5.6 million higher than the second quarter, and $64 million or 19% higher than the second quarter of 2012. QEP Energy contributed $344 million or 87% of aggregate third quarter EBITDA and QEP Field Services contributed $52 million or about 13%.

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QEP Energy's EBITDA was up $12 million or 4%, while Field Services EBITDA was down $6.7 million or 11.5% lower than the second quarter levels. Field Services third quarter results were lower than the previous quarter, reflecting about $4.45 million of what we describe as leakage, attribute to the 48 days in the quarter that the public owned their 42% share of the MLP.

Factors driving our third quarter EBITDA include QEP Energy's production, which is 78 Bcfe, one-tenth of a Bcfe higher than the 77.9 Bcfe reported in the second quarter of the year. The quarter's production was 4% lower than the 81.5 Bcfe produced in the third quarter of 2012. However, a year ago, natural gas comprised 79% of our net production, compared to 71% in the current quarter. Oil volumes were 2.64 million barrels, up 11% in the second quarter of the year and NGL volumes were 1.15 million barrels, up 3.5%.

Natural gas volumes were down 3% from the second quarter of the year, and down 14% in the third quarter of 2012, driven primarily by declined production in our Haynesville field. Oil volumes were up 83% or 1.2 million barrels from the third quarter of 2012. NGL volumes were down 17% or 233,000 barrels from the third quarter of 2012.

QEP Energy's net realized equivalent price, which includes the settlement of our commodity derivatives, averaged $6.71 per Mcfe, which was $0.24 per Mcfe higher than realized in the second quarter and $1.57 per Mcfe higher than we realized in the third quarter of 2012.

The equivalent price reflects field level prices that were $3.52 or $0.31 per Mcfe lower, field-level NGL prices that were $41.36 a barrel or $0.04 a barrel higher and field level crude oil prices that were $95.98 a barrel or $8.66 a barrel higher than their respective levels in the second quarter of the year. Field-level crude oil revenues account for 51% of total field-level revenues, which was 7% higher than the second quarter of the year, and up from 36% in the third quarter of 2012.

QEP Energy commodity derivative portfolio contributed $27 million of EBITDA in the quarter, compared to $31 million in the second quarter of the year and $92 million in the third quarter of 2012. The derivatives portfolio added about $0.35 per Mcfe to QEP Energy's net realized price in the quarter, compared to $0.40 per Mcfe in the second quarter of the year and $1.13 per Mcfe in the third quarter of 2012.

QEP Energy's combined lease operating and transportation expenses were $109 million in the quarter, up from $105 million in the second quarter of the year, and up from $103 million in the third quarter of 2012. On a per unit basis, lease operating expenses were $0.56 per Mcfe, down $0.03 per Mcfe from the second quarter, and transportation expense was $0.84 per Mcfe, which is up $0.08 from the second quarter.

Finally, QEP Field Services third quarter EBITDA was $51.6 million, which is about $6.7 millionlower than the second quarter of the year. Remember, our reported EBITDA does not include the $4.5 million, which is a portion of the MLP's EBITDA that QEP does not own.

Processing margin was up $7.6 million or 25% in the second quarter as a result of $8 million of deficiency payments in the quarter related to minimum buying commenced in the [ph] incubation (8:12) gas plants. Gathering margin was down $4 million or 10% in the quarter, compared to the second quarter of the year on essentially flat gas gathering volumes of 1.22 million MMBtus per day. The decrease in gathering margins is associated with lower other gathering revenues, which include deficiency payments related to minimum buying commitments, water handling and condensate sales.

The reported net income attributable to QEP of $37.3 million in the quarter, driven by a $13 million gain on asset sales, and a $54 million unrealized loss in the mark-to-market value of our derivatives portfolio. Sequential G&A

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expenses were up $8 million, primarily as a result of higher costs associated with our employees: salary, bonus and benefits; higher expense for outside professional services; and negative swing in the mark-to-market value of stock-based compensation. We expect G&A will tick back down somewhat in the fourth quarter.

In the first nine months of the year, we reported capital expenditures including acquisitions on an accrual basis of about $1.18 billion. Capital expenditures for E&P drilling and completion activity was $1.07 billion, and capital expenditures in our Midstream business were $55.5 million. In addition, we also reported $39 million of acquisitions. If you exclude acquisitions for the first nine months of the year, we spent about $16 million less than our EBITDA.

With regard to our balance sheet. At the end of the quarter, total assets were $9.3 billion and shareholder's equity was about $3.4 billion. Using the proceeds from the IPO, and a portion of the proceeds from the various asset sales that we closed in the year, it reduced debt at the end of the quarter to $2.9 billion, which is about a 1.8 times multiple of the midpoint of our 2013 EBITDA guidance.

Our debt at the end of the quarter consisted of $2.2 billion of senior notes, $300 million under our term loan do in 2017, and $365 million drawn under our $1.5 billion revolving credit facility.

At the end of the quarter, we had about $123 million of cash from the proceeds of various asset sales on our balance sheet. If you assumed that we applied all that cash to pay down debt, our net debt multiple of midpoint EBITDA guidance would be about 1.75 times, so we feel pretty good about what we have accomplished with regard to our deleveraging efforts.

With that, I'll turn the call over to Chuck.

Charles B. Stanley
Chairman, President & Chief Executive Officer, QEP Resources, Inc.

Thank you. Richard's already hit the financial highlights. I'll briefly touch on some operational results for the quarter, our plans for the remainder of the year, and then I'll make some comments about our recent shareholder letter before we move on to Q&A.

QEP's diversified upstream portfolio and focused investment in the high-return areas such as the Williston basin crude oil play, Pinedale and Uinta Basin liquids rich gas plays, combined with our complementary Midstream business led to a series of significant company performance records in the third quarter.

These include record oil volumes, record fee-based processing revenues at Field Services, and perhaps most importantly, record high quarterly EBITDA. We completed the IPO of QEP Midstream partners in August, as Richard mentioned already, it represented one of the fastest and largest MLP IPOs on record. We've used the IPO proceeds, along with proceeds from the sale of some non-core upstream assets, which has allowed us to strengthen our financial position, reducing net debt by over $500 million from the prior quarter.

Going forward, we expect our Midstream business and MLP to continue to maximize margins on and timely completion around QEP production, while providing new growth opportunities for QEP and for our new partnership QEPM. While total production declined slightly from last year, our growth in EBITDA and a reduction in net debt means that our EBITDA per debt adjusted shares also improved, and we expect that that metric will continue to do so as we grow high margin crude oil production in the coming quarters.

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Our asset managers continue to make great progress driving increasing share of liquids as a percentage of our total production volumes. Crude oil production was up 11% from last quarter and 83% from the third quarter of 2012. At an average of approximate 28,700 barrels of oil per day, crude oil represented 20% of total QEP production in the third quarter, and that's up from less than 18% last quarter and 11% from a year ago.

And for the first time in QEP history, crude oil revenue represented more than half of our total field level E&P company revenues. Combined crude oil and NGL volumes represented 29% of QEP energy production in the third quarter, up from 27% in the second quarter and 21% of total production in the third quarter of last year.

Earlier in the year, weather issues caused us some delays that we thought we could overcome in the Williston Basin, but bottlenecks and third-party gathering systems, especially at downstream delivery points and greater-than-expected timing impacts from shutting in QEP-operated producing wells during offset completion activity, will cause us to slightly miss our goal of 70% year-over-year total crude oil production growth in 2013.

That said, our current forecast of 60% year-over-year crude oil production growth is a remarkable achievement and it sets the stage for continued crude oil production growth in 2014. The continued impact of growing high margin oil production on our financial results is also clear as Richard's already noted.

QEP Energy delivered record adjusted EBITDA of $344 million in the third quarter; that's up 4% from the second quarter of this year and 29% from the third quarter of last year. Now let me give you a little more color on our operational results for the quarter and our plans for the remainder of the year. As I do so, I'd ask you to refer to the slide presentation that accompanied our release yesterday afternoon.

We're currently running eight rigs in the Williston Basin, the same as last quarter, but they've moved around a bit. We now have five rigs working at South Antelope, which is one fewer than last quarter, and three rigs working to the east on the Fort Berthold Reservation, up from two during the previous quarter. Well results on our South Antelope property continue to be very strong and 90-day cumulative production volumes continue to track our roughly 1 million barrel of oil equivalent EUR type curve for both the Three Folks and for the Middle Bakken.

Completion activity picked up in the Williston Basin with 21 QEP-operated well completions in the third quarter, and that compares to 27 total well completions during the first half of this year. Overall, we're pleased with the technical results from the Williston Basin and the future potential. We continue to evaluate the potential for increased well density on our acreage. We're obviously monitoring the results of pilot programs that are being conducted by nearby offset operators, and we also have a planned pilot program to evaluate the applicability of increased density development on our own acreage.

As we drive efficiencies in our drilling and completion operations through pad drilling, we continue to make good progress on well costs at both South Antelope and at Fort Berthold. We are targeting an average of $10 million gross completed well costs by year-end. Remember, that on the Fort Berthold reservation because our acreage configuration – the shape of our acreage configuration largely under Lake Sakakawea, on average, we drill a longer lateral than we do over in the South Antelope properties.

Considering the longer laterals and certain costs and fees that are unique to the reservation, we would expect that the completed well costs would remain slightly higher than at South Antelope, on the Fort Berthold reservation.

Field level crude oil prices for all of QEP Energy, which is dominated, of course, by our volumes in the Williston Basin, improved in the second quarter due to higher benchmark prices. However, after experiencing a narrow average basis differential in the first half of the year of about $5 a barrel, their average discount widened in the

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third quarter to over $10 a barrel, due primarily to a decrease in Clearbrook pricing and a narrowing of the Brent WTI spread on volumes that we have contracted to the East Coast.

This basis differential led to a negative impact of about $12 million on third quarter EBITDA, and has caused a reduction of our full year EBITDA guidance of nearly $30 million.

Please see Slides 5 through 7 in the accompanying slide deck for more details on our Williston Basin operations.

Turning to Pinedale, production volumes were up 9%, compared to the prior quarter. At the end of the third quarter, we had a total 79 new producing wells completed in terms of sales for the year, including 22 wells that were completed during the third quarter. QEP has an average 75% working interest in the new wells that have been completed to-date. We're on track to complete about 110 wells this year. Note that this includes 29 wells that we operate for a third party, but only own an overriding royalty interest in, so a fair amount of our completion activity for the second half of the year will have minimal impact on QEP Energy net production.

But obviously, all of those volumes flow through our Midstream system, so we'll continue to benefit QEPM through increased volume on the gathering systems, and Field Services through the processing plants. We continue to run four rigs at Pinedale through year-end, but remember, as we have always done, we will suspend well completion activity during the coldest months of the winter. See Slides 8 and 9 for details on our Pinedale activity.

In the Uinta Basin, we continue to make good progress on our Red Wash Lower Mesaverde liquids rich gas play. We realized that running just one rig in the play through much of this year has been a bit confusing to some, but we've been working on a new way of developing a portion of this play. We're evaluating some early well results from a fundamentally different well design that we think could radically alter the economics and the way we approach development of this significant asset. We'll provide more color on this approach as soon as we get a little more production data from the first well and get some more wells down.

Clearly, this project presents not only a significant growth opportunity for QEP Energy, but also for our Midstream business. And since this project, like most of our other development projects in the Rockies, is located on federal land, largely within a single federal unit, simultaneous permitting and construction of both the midstream and upstream infrastructure will be critical to our success.

At the end of the quarter, we also had one rig in the Uinta Basin that was focused on drilling horizontal and vertical oil wells in the Green River formation. Slide 10 shows more details on our Uinta Basin activities.

Turning to the Midcontinent. During the third quarter, we participated in a number of outside operated wells that were either drilling or waiting on completion in the Cana play. See Slide 11 for the location of the recently completed wells and other details.

At Field Services, EBITDA declined slightly from the second quarter, primarily as a result of the EBITDA attributable to the non-controlling interest associated with QEP Midstream. The start-up of our new 150 million a day cryo plant, Iron Horse II, located in the Uinta Basin, which happened in the first quarter of this year helped us deliver record fee-based processing revenue and volume in the third quarter. About half of the capacity of this new plant is contracted to third parties under a fee-based arrangement, while the remainder is available to process QEP Energy's gas volumes from the Red Wash Mesaverde play.

The processing arrangement between QEP and Field Services is also fee-based. During the quarter, Field Services also completed construction of an expanded rail loading facility that's associated with our 10,000 barrel a day

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expansion of our existing fractionation facility at the Blacks Fork complex in Wyoming. This facility will provide additional options for marketing purity propane, iso, and normal butane and gasoline range products to what are often times premium-value markets both locally and regionally, either via trucks or across this new expanded rail loading facility to other parts of the U.S.

As Richard mentioned, we're very pleased with the execution of the QEP Midstream partners or QEPM, MLP IPO last – in August. As a reminder, QEP Midstream contains a subset of QEP's gathering assets and those are primarily located in the Green River Basin in Wyoming, the Williston Basin in North Dakota and Uinta Basin in Utah. QEP continues to own gathering and processing assets, which are obviously candidates for future dropdowns.

We believe the market's strong reception of the QEPM IPO is a clear indicator of the quality of our Midstream assets and the people who run them. We're excited about the doors this opens for new investment opportunities and the potential benefit for both QEP and QEP Midstream going forward.

You'll note that we recently announced the appointment of two additional independent QEPM board members, who round out QEPMs Conflicts Committee. The appointment of Gregory King and Donald Turkleson and the considerable expertise that they bring to our board are a significant step in progressing the growth plans of our Midstream business.

We view 2013 as a pivotal year for QEP, as we continue to dramatically shift our production mix at QEP Energy from the one that's dominated by natural gas to one that's more balanced. We're making significant progress on achieving this goal, as we expect to increase crude oil production by approximately 60% this year, compared to 2012 levels. And natural gas volumes, as a reminder, are expected to decrease about 10% or so in 2013, as we allocate capital to high return oil projects, which have been primarily responsible for our strong growth in EBITDA.

Most if not all of the gas production volume decline is being driven by declines in the Haynesville Shale in Northwest Louisiana, due to the absence of new drilling and completion activity.

Finally, I want to briefly address the recent letter made public by our largest shareholder, Jana Partners. The letter, as most of you know, called on QEP to add Midstream expertise to our board and management team, to align management incentives more closely to Midstream performance, to consider other structural changes at QEP Field Services and to return capital to shareholders.

As we stated in our press release on October 22, we maintain an ongoing dialogue with all of our shareholders, including Jana, and we are intensely focused on developing strategies and taking near-term actions that we believe will create long-term value for all of our investors. We have had constructive conversations with Jana for nearly a year now, they've made a number of suggestions during that time, some of which we'd already been considering, and others suggestions which would constitute new initiatives.

We've taken all of their suggestions seriously and we've reviewed all of them with our board. During 2013, we successfully implemented a major structural change to our company, the formation and successful IPO of QEP Midstream Partners, an initiative that Jana strongly supported. As we discussed with Jana prior to the receipt of their letter, our board and management team are actively reviewing the proposals they outlined with our financial and legal advisors. As part of this evaluation, we also intend to solicit the views of our other shareholders in the days and weeks ahead, consistent with our fiduciary duty to develop strategies and take actions that benefit all of our investors before we make any final decisions. Beyond that, we won't comment any further on the letter or our discussions with shareholders on today's call.

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With that Manny, I'd like to open the line for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question is from Brian Gamble of Simmons & Company. Please go ahead.

Brian D. Gamble
Analyst, Simmons & Co. International

Q

Good morning, everybody.

Charles B. Stanley
Chairman, President & Chief Executive Officer, QEP Resources, Inc.

A

Morning Brian.

Brian D. Gamble
Analyst, Simmons & Co. International

Q

Just wanted to start off with some questions on the oil side and maybe specifically the Bakken. I understand if you don't want to go out with any sort of 2014 guidance, but maybe you could clear up some of the issues that happened during the quarter, the bottlenecking and third-party issues over? Maybe work through what you potentially see as a completion schedule for Q4? And then if you want to touch on a potential exit rate for the year that would be helpful?

Charles B. Stanley
Chairman, President & Chief Executive Officer, QEP Resources, Inc.

A

Let me try to take those questions, maybe not in the same order you asked them. Brian, in simple terms, the way I look at this is that we're on a very steep growth trajectory. And if I think of it as an inclined curve, it just shifted a month-and-half or two months, as a result of some delays that we had. Some of them were self-induced. We added a sixth rig in the South Antelope area, and that sixth rig introduced some additional offset shut-ins that we had not planned for when we were scheduling our completion activity. So we had more existing producing wells shut-in than we would have normally anticipated, because of the addition of that sixth rig and the proximity of the individual pads to each other. So that impacted production volumes.

Our growing volumes on third-party gathering systems resulted in problems redelivering that oil from their gathering systems to downstream markets, either interstate pipes that take it out of the state or rail-loading facilities. And it caused us to have to delay or slow down a completion activity while they got caught up.

We're just now seeing some new facilities put in place that are connected to the gathering systems that will allow us to deliver oil directly into pipes that in turn deliver it to rail-loading facilities. We actually were forced during the quarter to take oil off of the gathering system and truck it to rail-loading facilities, which not only slowed us down, but also resulted in lower realized prices as a result of additional costs associated with trucking oil that should have gone down gathering systems.

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The third sort of delay was basically weather-related, and it was – and part of it caused us to move the sixth rig into South Antelope from Fort Berthold. We talked about that I think in the first quarter call – I'm sorry in the second quarter call and that introduced some planning problems for us. And in addition in South Antelope, we had to go to some pads that we had not anticipated going to that resulted in near proximity completion problems that resulted in more shut-ins.

Going forward, we're comfortable now with the 60% plus growth rate for the year. That implies a 33,000 barrel a day rate. Coincidentally, we monitor the production obviously daily. We're at that rate today. And what I would point is that there's volatility as we shut wells in and continue to complete additional wells through the end of the quarter.

We've got at the end of the third quarter about 22 remaining wells that are either drilled in case, waiting on completion or nearly down and waiting on completion. So we have a substantial inventory of remaining wells to complete that should drive production through the end of the year.

And then as to your question on 2014, we will give guidance in early January for 2014 volumes. But looking at the plan that the team has presented to me and thinking about the sort of the shift in delay of several months, we would anticipate ongoing production growth as we leave 2014 – I'm sorry, leave 2013 and move on into 2014. And I'm not going to you a percentage growth for next year, but we're comfortable that we will continue to be able to deliver production growth into 2014.

Brian D. Gamble
Analyst, Simmons & Co. International

Q

Great. I appreciate the color. And then maybe as my quick follow-up, you mentioned a planned pilot program from a downspacing standpoint. Any color you want to provide there?

Charles B. Stanley
Chairman, President & Chief Executive Officer, QEP Resources, Inc.

A

Yeah, obviously, there's a lot of industry activity going on across the basin. And a couple of observations, one, the geology, even though at 40,000 feet it looks layer cake, there's quite a bit of variability in both the Middle Bakken and in the Three Forks. And while pilot programs run by other operators will give us a hint as to the applicability on our acreage, the only way we'll know for sure will be through piloting on our own acreage. And that's why we have plans in the very near future to commence drilling an in-field pilot of our own.

The fundamental prize and the fundamental opportunity is to increase recovery of the oil in place in both the Bakken and Three Forks, because as we know with current recoveries, we're leaving a substantial volume of the oil in place in the ground and we're looking for ways to obviously enhance the recovery, first through maximizing the efficiency of our completions. And absent the ability to recover substantial additional reserves through maximizing completion design efficiency, drilling additional wellbores.

And there's always going to be a trade-off between rate acceleration and incremental recovery on those new wellbores we drill, and that's a question you can only answer – as we've learned through years of piloting in places like Pinedale, that you can never model it, you have to actually go out and put holes in the ground and watch the wells perform over time.

Brian D. Gamble
Analyst, Simmons & Co. International

Q

Any specific spacing you're targeting there? Or just kind of feel it out as you go?

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Charles B. Stanley
Chairman, President & Chief Executive Officer, QEP Resources, Inc.
A

Well, the first pilot will add two wells to the spacing unit, so we go from four to six.

Brian D. Gamble
Analyst, Simmons & Co. International
Q

Okay. That's great. Thanks, guys.

Charles B. Stanley
Chairman, President & Chief Executive Officer, QEP Resources, Inc.
A

Thanks...

Operator: Thank you. The next question is from Hsulin Peng of Robert W. Baird. Please go head.

Hsulin Peng
Analyst, Robert W. Baird & Co. Equity Capital Markets
Q

Good morning. So my question is a follow-up on previous quarter, where you had mentioned that you're experiencing with more proppant; I think it was like 5 million pounds. So I was just wondering if you have an update for us as in terms of what you are seeing with that experimentation?

Charles B. Stanley
Chairman, President & Chief Executive Officer, QEP Resources, Inc.
A

Hsulin, good morning. Generally, we've seen a pretty strong correlation between increased profit density per stage and initial well performance. And if initial well performance indicates ultimate recovery, then we should see better recoveries over the life of the well. We've made a substantial increase in the total volume of proppant or total number of pounds of proppant, 3 million pounds to 5 million pounds. And we slightly changed the recipe that we're using and we continued obviously monitor the results as we pump additional fracs.

Hsulin Peng
Analyst, Robert W. Baird & Co. Equity Capital Markets
Q

Okay. So that sounds good. And the well – the production results that you talked about in your press release this quarter, does that reflect this new completion technique or just a few?

Charles B. Stanley
Chairman, President & Chief Executive Officer, QEP Resources, Inc.
A

Well, it does, although it probably averages through some wells that were put online early in the quarter that did not have the higher proppant concentration. But it's a reflection of a move toward the higher profit concentrations; maybe a third were at the lower concentration and two-thirds – I'm sorry, I got it backwards: two-thirds at the lower concentration, a third at the higher concentration.

Hsulin Peng
Analyst, Robert W. Baird & Co. Equity Capital Markets
Q

Okay, got it. And then shifting over to Lower Mesaverde, I know you mentioned you are trying this new completion design. Can you just give us more color as to exactly what you are trying there?

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Charles B. Stanley
Chairman, President & Chief Executive Officer, QEP Resources, Inc.
A

No, I'd prefer not to at this point. I'd like to gather more data, really understand the well results and then we'll lay it all out when we have more data.

Hsulin Peng
Analyst, Robert W. Baird & Co. Equity Capital Markets
Q

Okay. And then...

Charles B. Stanley
Chairman, President & Chief Executive Officer, QEP Resources, Inc.
A

But, Hsulin, suffice it to say, we're very encouraged by the rather very early time series of production that we see, which is radically different than the vertical wells that we've drilled on pads to-date.

Hsulin Peng
Analyst, Robert W. Baird & Co. Equity Capital Markets
Q

Okay. So when do you think you could tell us, give us more color on it?

Charles B. Stanley
Chairman, President & Chief Executive Officer, QEP Resources, Inc.
A

You're persistent. Perhaps in conjunction with our guidance update, at least some initial results. It may be at the end of the first quarter.

Hsulin Peng
Analyst, Robert W. Baird & Co. Equity Capital Markets
Q

Okay, that sounds good. And then two quick ones. The asset divestitures, can you talk about which assets you divested specifically?

Richard J. Doleshek
Chief Financial Officer, Treasurer & EVP, QEP Resources, Inc.
A

Hey, Hsulin, it's Richard. The three packages that we sold, two in the second quarter, one in the third quarter were our pad river assets, some assets down in the Fort Corners area in the San Juan basin, and then the package that we had marketed in the [indiscernible] (35:02) and that was the one that closed – the last one's the one that closed in the third quarter with about a $13 million recorded gain.

Hsulin Peng
Analyst, Robert W. Baird & Co. Equity Capital Markets
Q

Okay, got it. And then last question, Richard. Regarding G&A, I think you said that overall G&A would go down in the fourth quarter, but more specifically Midstream. I think 3Q was about close to $60 million, is that – I mean, given part, given the Midstream MLP, is that – how should I think about the trend for Midstream G&A?

Richard J. Doleshek
Chief Financial Officer, Treasurer & EVP, QEP Resources, Inc.
A

There was about $2.5 million of what I'll call noise in the Midstream business that related to a feasibility study for a gas plant that we decided to expense in the quarter. So think about that number less $2.5 million, and then the

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normal allocation of what goes from corporate down to Field Services. But that was – you found a piece of what I'd talked to about the non-recurring stuff that occurred in the quarter.

Hsulin Peng
Analyst, Robert W. Baird & Co. Equity Capital Markets

Q

Okay, got it. Thank you.

Charles B. Stanley
Chairman, President & Chief Executive Officer, QEP Resources, Inc.

A

Thanks, Hsulin.

Operator: Thank you. The next question is from Brian Corales of Howard Weil. Please go ahead.

Brian M. Corales
Analyst, Howard Weil

Q

Good morning, guys.

Charles B. Stanley
Chairman, President & Chief Executive Officer, QEP Resources, Inc.

A

Good morning, Brian.

Brian M. Corales
Analyst, Howard Weil

Q

Chuck, I think you just mentioned that you're currently at about 33,000 barrels a day, did I hear that correctly?

Charles B. Stanley
Chairman, President & Chief Executive Officer, QEP Resources, Inc.

A

Yeah, around 33,000.

Brian M. Corales
Analyst, Howard Weil

Q

So can you we just assume that you've roughly had about 4,000 barrels a day from the third quarter kind of deferred to the fourth quarter? Or is this all new completions, and this 33,000 is probably going to grow?

Charles B. Stanley
Chairman, President & Chief Executive Officer, QEP Resources, Inc.

A

Well, as I said earlier, I think I said earlier, we still have 22 wells to complete, and we will have to shut in offset wells, including some of the recently completed wells as we frac and put the last 22 wells online. So the volatility associated with pad development, especially when we have the wells all kind of lined up in a line, which is what we are doing, we have what is referred to locally in North Dakota as the QEP Highway, with a bunch of rigs lined up along it and now a bunch of completions lined up along it. And it results in a substantial amount of production volumes being shut in, while we go about completing new wells on pads.

So what we've tried to do and this is a learning curve for us and I would hasten to point out that the team is focused on making sure that we go back to our normal practice of under-promising and over-delivering. We are

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making sure that we don't miss on this current guidance and, as a result, you're going to see volatility. The trend is going to be generally upward, Brian, but there's a lot of volatility associated with this as a result of offset shut-in.

Brian M. Corales
Analyst, Howard Weil

Q

Okay. No. That's fair. And maybe switching tunes to the Midstream side, I know you've just added some people to the Conflicts Committee. I mean, could we assume that you're probably going to see dropdowns relatively quickly? I mean, is there an assumption to be made there?

Charles B. Stanley
Chairman, President & Chief Executive Officer, QEP Resources, Inc.

A

Well, certainly we needed a Conflicts Committee before we could accomplish a dropdown. And we, in fact, had our first QEPM board meeting yesterday with the fully constituted independent director slate. A couple of observations, one, when we IPO'd QEPM back in August, we intentionally put in place $0.5 billion revolving credit facility. And as you know, at the IPO, that facility is undrawn. So we put in place a tool to use to finance the first dropdown, without being in sort of perpetual registration with the SEC if we wanted to finance the first drop using equity issuance or units.

So I think you can read from that that this management team anticipated the likelihood that we would do our first drop before the 365-day anniversary of the IPO. And so we have the Conflicts Committee in place. We have a tool to finance a drop down. And those are the two sort of points that I can give you as indication of our intent.

Brian M. Corales
Analyst, Howard Weil

Q

All right. Thank you.

Charles B. Stanley
Chairman, President & Chief Executive Officer, QEP Resources, Inc.

A

Thanks, Brian.

Operator: Thank you. [Operator Instructions] And the next question is from Eli Kantor of IBERIA Capital Partners. Please go ahead.

Eli J. Kantor
Analyst, IBERIA Capital Partners LLC

Q

Good morning.

Charles B. Stanley
Chairman, President & Chief Executive Officer, QEP Resources, Inc.

A

Hi, Eli.

Eli J. Kantor
Analyst, IBERIA Capital Partners LLC

Q

Just a question on your Bakken activity, are you seeing any change in well performance when you're bringing in these offsetting wells back online?

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Charles B. Stanley
Chairman, President & Chief Executive Officer, QEP Resources, Inc.

A

You mean as far as shutting them in and then bringing them back?

Eli J. Kantor
Analyst, IBERIA Capital Partners LLC

Q

That's right.

Charles B. Stanley
Chairman, President & Chief Executive Officer, QEP Resources, Inc.

A

Not, I'm looking at Jim Torgerson, not really. I mean, they do build up pressure and sometimes you'll see a slightly higher rate when they come back online, just because they've been shut in. But no substantial change in performance. And as I mentioned, when we look at the 90-day sort of cumulative production versus our type curve, we see well performances effectively in line with what we had forecasted from our acquisition model.

Eli J. Kantor
Analyst, IBERIA Capital Partners LLC

Q

Okay. That's helpful. Was hoping for an update on your upstream investment plan. In the past, you guys have talked about potentially selling the Granite Wash, potentially selling Cana. It looks like some of your peers in the area have had success making asset sales recently. Do those assets still look good from a divestment standpoint? And are there any other upstream properties that you might look to sell?

Charles B. Stanley
Chairman, President & Chief Executive Officer, QEP Resources, Inc.

A

Eli, we continue to evaluate all of our upstream portfolio to determine whether the value of holding the asset is greater – holding it and developing it is greater than we can receive for it through a sale to a third party. We continue to look at both Midcontinent assets and other assets in our portfolio and we'll obviously monitor the market and make decisions going forward. We continue to discuss it with our board and with our asset managers to challenge them on maximizing shareholder value for those assets.

Eli J. Kantor
Analyst, IBERIA Capital Partners LLC

Q

Okay. Last one from me is just on current appetite for making upstream acquisitions. Are there any – obviously, oil growth is a top priority. Are there any basins that look attractive in picking up new acreage? And assuming the Williston makes the most sense, given your existing footprint in the area, what does deal flow look like in the Williston relative to last couple of years?

Charles B. Stanley
Chairman, President & Chief Executive Officer, QEP Resources, Inc.

A

Deal flow has, obviously, been pretty high over the past year in the Williston. There are some additional opportunities out there that we continue to evaluate. We've looked at other acquisition opportunities, primarily for crude oil. Obviously, there's only a handful of basins that meet our criteria; that have a substantial black oil production, repeatable resource play type resource opportunities. And we have a team of folks both in A&D and new ventures looking at opportunities not only to acquire assets, but also develop our own plays both in existing basins and we'll continue to evaluate several basins in which we're not currently active.

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Eli J. Kantor
Analyst, IBERIA Capital Partners LLC
Q

Okay. Thanks, Chuck.

Charles B. Stanley
Chairman, President & Chief Executive Officer, QEP Resources, Inc.
A

Thanks, Eli.

Operator: Thank you. The next question comes from Andrew Coleman of Raymond James. Please go ahead.

Andrew Coleman
Analyst, Raymond James & Associates, Inc.
Q

Hey, good morning, folks and thank you for taking my questions. The question I had first was just I guess a different side of what Eli asked. Was as you look at your existing assets, particularly at the Cana, and one of your peers have discussed a potential new secondary play there coming off of Cana in the Anadarko Woodford in the [ph] Merrimac (43:51), have you all looked at that? Or is that something that you have a view on right now? Or should we look more to the guidance update?

Charles B. Stanley
Chairman, President & Chief Executive Officer, QEP Resources, Inc.
A

Well, obviously, we evaluate all of our acreage. And yes, we have looked at it. In fact, we participated in a well or two in that play, so, we're very much aware of it. And we continue to think about it on our acreage. And obviously, just a reminder, Andrew, when we show acreage numbers in plays like the Cana, that's just acreage associated with the circle we arbitrarily draw on our map and basically show you for that particular play. But we have several hundred thousand acres of acreage in the Anadarko Basin. So when you're thinking about our footprint, it goes beyond just the margins of the page, so to speak, in the play summaries that we've included in our investor materials.

Andrew Coleman
Analyst, Raymond James & Associates, Inc.
Q

Okay. Good. I know a few months ago that you all decided not to divest that property. Is it possible that some of that value for that play could have been part of the reason? Or was the valuation at the time only related to the Cana?

Charles B. Stanley
Chairman, President & Chief Executive Officer, QEP Resources, Inc.
A

I'd rather not get into the details of our thought process around that.

Andrew Coleman
Analyst, Raymond James & Associates, Inc.
Q

Okay. I understand. And then the last question I had is that you mentioned that the change in basis there between the – as well as the TI Brent spread on your Bakken barrels, what's the current mix of your takeaway right now?

Charles B. Stanley
Chairman, President & Chief Executive Officer, QEP Resources, Inc.
A

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Well, we've got about 7,000 barrels a day going to a Brent market and the rest of it is going to a mixture of Clearbrook and LLS related, Gulf Coast related pricing. And obviously, the physical market in North Dakota has been impacted somewhat by refinery outages, by some pipeline issues, that I'm sure everybody is aware of. And it's been – it was kind of a sloppy quarter as a result, but there's some new facilities that have come online that should allow for more straightforward train loading and access to not only the Brent and LLS markets by rail, but also potentially West Coast markets. So the facilities bottlenecks we hope are behind us.

Andrew Coleman
Analyst, Raymond James & Associates, Inc.

Q

Okay. Thank you very much.

Charles B. Stanley
Chairman, President & Chief Executive Officer, QEP Resources, Inc.

A

Thanks, Andrew.

Operator: Thank you. We have no further questions in queue at this time. I would like to turn the floor back over to management for any additional remarks.

Charles B. Stanley
Chairman, President & Chief Executive Officer, QEP Resources, Inc.

Well, thank you very much on behalf of my colleagues here at QEP. We appreciate your calling in today and for your interest in our company. We'll be on the road at several conferences and meeting with the shareholders and we look forward to seeing you soon.

Operator: Thank you. Ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time and thank you for your participation.

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